

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

CASE NO. GNR-E-02-01

DIRECT TESTIMONY OF RICHARD L. STORRO

REPRESENTING AVISTA CORPORATION

1 Q. Please state your name, business address, and present position with Avista
2 Corporation.

3 A. My name is Richard L. Storro. My business address is East 1411 Mission
4 Avenue, Spokane, Washington, and the Company employs me as Manager of Power
5 Supply.

6 Q. What is your educational background?

7 A. I graduated from the College of Idaho in 1973 with a Bachelor of Science
8 Degree in Physics. I also obtained an Electrical Engineering Degree from the University
9 of Idaho in 1973.

10 Q. How long have you been employed by the company?

11 A. I started working for Avista in 1973 as a distribution engineer. I have
12 worked in various engineering positions, and have held management positions in line and
13 gas operations, system operations, hydro production and construction, and transmission. I
14 joined the Energy Resources Department as a Power Marketer in 1997 and became
15 Manager of Power Supply in 2001. My primary responsibilities involve the oversight of
16 both the short-term and long-term planning and acquisition of power supply resources for
17 the Company.

18 Q. What is the scope of your testimony?

19 A. As the policy witness, I am providing an overview in support of the
20 avoided cost rates that the Company has proposed in this proceeding. In light of the
21 Commission's recent Order No. 29069 approving PURPA contracts up to 10 megawatts
22 for 20 years, I believe it is very important that the variables in the avoided cost rate
23 calculation be accurate and that the final avoided cost rates are a reasonable

1 representation of our expected power supply costs. This is important because if avoided
2 cost rates are set too high then Avista's customers incur unnecessary costs and
3 conversely, if rates are set too low then we may miss out on a cost-effective resource for
4 our customers. I believe our proposed avoided cost rates, which are based on the existing
5 methodology and the most recent information available regarding the input variables, are
6 a fair and reasonable representation of the costs our customers will incur for new power
7 resources over a 20 year period.

8 Q. How does the Company's proposed avoided cost rates compare with the
9 existing avoided cost rates from Order No. 29057?

10 A. The Company's proposed avoided cost rates are substantially lower than
11 the existing rates. For example, the levelized 20-year rate for a non-fueled project¹
12 starting in 2005 is \$44.18/MWh compared to \$75.26/MWh for the existing rates. This
13 difference can result in a large change in cost to the Company's customers. Should the
14 Company enter into a contract for 10 average megawatts beginning in 2005 under
15 existing published avoided cost rates in Order No. 29057, the Company's customers
16 could pay \$2.7 million per year more than what the Company believes they should pay
17 based on the proposed avoided cost rates. While lower than the existing rates, I believe
18 our proposed avoided cost rates are a fair representation of the Company's expected costs
19 for new power resources.

20 Q. Can you summarize the basis for the Company's proposed avoided cost
21 rates?

¹ Non-fueled projects avoided cost rates are fixed for the term of the contract. Fueled avoided cost rates include a fixed component and an annually adjustable component.

1 A. Yes. The proposed avoided cost rates are based upon the Commission's
2 currently accepted methodology with updated variables used in calculating the
3 Company's avoided cost rates. The update to the variables used in the avoided cost
4 calculations is explained in detail in Mr. Kalich's testimony. Based upon the existing
5 avoided cost methodology using updated variables as proposed by Mr. Kalich, the
6 Company's proposed interim avoided cost rates for levelized 20-year non-fueled contracts
7 range from \$38.02/MWh to \$48.44/MWh for contracts beginning in years 2002 and 2007,
8 respectively. The levelized avoided cost rates for fueled 20-year range from
9 \$20.26/MWh to \$16.04/MWh for 2002 and 2007, respectively.

10 Q. How do these rates compare to other resource alternatives for the
11 Company?

12 A. Our proposed avoided costs are a fair representation of the Company's
13 expected new resource costs over the next twenty years. The avoided cost rates are much
14 higher than shorter-term market purchases, where the Company most recently has been
15 purchasing power through 2010 at prices in the \$30/MWh range. With regard to longer-
16 term costs, a combined cycle combustion turbine is Avista's primary option for a new
17 generating plant, and the cost of a new plant are likely to be similar to the cost assumed in
18 our proposed avoided costs. It is important to note, however, that the Company does not
19 need to immediately lock in the cost of the fuel for twenty years when a new resource is
20 developed. In fact, with a Company owned resource we have the flexibility to not run the
21 plant if purchasing power is less expensive. We don't have the benefit of that flexibility
22 with a purchase from a qualifying facility. That aside, if we assume the same price of fuel
23 for a new combined cycle combustion turbine as is proposed in Mr. Kalich's testimony

1 then the total cost of a new Company owned plant will be very close to the total (non-
2 adjustable plus fuel) SAR cost used in the avoided cost calculation. Combining the actual
3 cost of power purchases in the short-term with the cost of a new plant in the longer-term
4 produces expected resource costs for the Company similar to our proposed avoided costs.

5 Q. Is the Company currently in negotiations to purchase the generation from
6 any new qualifying facilities?

7 A. No, not at this time, although one developer in Montana has requested a
8 prototype contract.

9 Q. In conclusion, what actions are you requesting the Commission to take?

10 A. I am requesting that the Commission adopt the avoided cost input
11 variables presented in Mr. Kalich's testimony and approve the Company's proposed
12 avoided cost rates. These avoided cost rates are based on the Commission's approved
13 avoided cost rate methodology and the most recently available information on the
14 variables used in calculating the rates. I believe these rates are a fair and reasonable
15 representation of the costs the Company would incur to secure new power resources.

16 Q. Does the adoption of your proposed avoided cost rates address all your
17 concerns regarding the purchase of power from qualifying facilities?

18 A. No. However, we realize that the purpose of this hearing is to receive
19 evidence on the reasonableness of the variables in the existing avoided cost methodology,
20 and as such, have limited our testimony to that issue. We still have concerns regarding
21 the nameplate generating capacity of projects, scheduling and supply commitments.

22 Q. Does that conclude your pre-filed direct testimony?

23 A. Yes.